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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant:	Cadoux, Robert	)	**Examiner:**	Milef, Elda G.
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Serial No.:	09/491,388	)	**Art Unit:**	3628
		)		
Filing Date:	Jan. 26, 2000	)	**Attorney Docket No.**	99629

Title: A SERIALLY STAGED, INITIAL PUBLIC STOCK OFFERING METHOD

REPLY BRIEF OF APPLICANT ROBERT CADOUX

Applicant, Robert Cadoux, by and through his undersigned counsel, submits this reply brief in reply to the Examiner's Answer mailed May 4, 2006.

I. INTRODUCTION

Due to the withdrawal of the rejection under 35 U.S.C. § 101 in the Examiner's Answer, only one ground for rejection remains in this appeal -- the obviousness rejection under 35 U.S.C. § 103(a). And the Examiner's Answer further crystallizes the key questions which appear to be dispositive in this appeal: whether it would have been obvious to modify Macklin's seasoning strategy to realize the offering structure claimed in independent claim 27 by disclosing the particulars of the seasoned (i.e., follow-on) offering ***prior*** to the initial public offering in Macklin, and whether such a modification of Macklin would achieve the benefits of the offering structure in claim 27. The answer is that claim 27 is ***not obvious*** in view of Macklin's seasoning strategy. More precisely, the Office has not and can not make out such an obviousness rejection because:

- To modify the teachings of Macklin as suggested by the Examiner would defeat the very purpose of the Macklin seasoning strategy, rendering it unsatisfactory for its intended purpose; and
- The reasons stated in the Examiner's Answer are factually inaccurate and amount to mere speculation as to motivation to modify the seasoning strategy of Macklin.

Therefore, the § 103 rejection should be overturned.

II. ARGUMENT

A. The Examiner Has Not Made Out A Prima Facie Case Of Obviousness

There is no question that the method of claim 27 is different from Macklin's seasoning strategy. *See e.g.*, Examiner Answer's at 5-6 (stating some of the features of claim 27 that Macklin does not disclose). Thus, the question is whether claim 27 is obvious in view of Macklin's seasoning strategy. In order to reject a claim as obvious under 35 U.S.C. § 103, the Office must first establish a prima face case of obviousness. *See* MPEP § 2142.

A prima facie case of obviousness requires, among other things, a motivation to modify a prior art reference (or references when combined) to realize the claimed invention. *See* MPEP § 2142 (citing *In re Vaeck*, 947 F.2d 488, 20 USPQ2d 1438 (Fed. Cir. 1991)). Here, the Examiner has not provided (and can not provide) a justifiable motivation to modify the teachings of Macklin to realize the method of claim 27 for at least the reasons stated below. Accordingly, the obviousness rejection should be overturned.

1. The Modifications To Macklin Suggested By The Examiner Would Render Macklin Unsatisfactory For Its Intended Purpose

The Examiner argues that it would have been obvious based on Macklin to disclose, prior to the initial offering, the number of shares offered in the subsequent (or "seasoned") offering, when the shares of the seasoned offering are to be offered, and the amount of time between initial and seasoned offerings. Such a modification to Macklin's seasoning strategy would render Macklin's seasoning strategy unsatisfactory for its intended purpose. As such, there can be ***no motivation*** to modify Macklin as suggested by the Examiner. *See* MPEP § 2143.01 ("If proposed modification would render the prior art invention being modified unsatisfactory for its

intended purpose, then there is no suggestion or motivation to make the proposed modification.") (citing *In re Gordon*, 733 F.2d 900, 221 USPQ 1125 (Fed. Cir. 1984)).

The stated purpose of Macklin's seasoning strategy is to issue a small amount of stock in an initial offering, and then, some indeterminate time afterward, issue a larger number of shares in a subsequent (or "seasoned") offering so that companies whose initial offering is "under pressure because of difficult market conditions or because the company is not well known and is perceived as higher risk" does not have to issue all of the stock it intends to issue during the difficult market conditions of the first offering. *See* Macklin at 103. That way, after the initial "conservative valuation," the company can "allow the stock to become better known in the investment community" before doing the seasoned offering. *See id.* In this time period between offerings, the stock may appreciate due to improving market conditions or the company may build credibility with investors, thereby allowing the seasoned offering to be at a higher valuation that the second offering. *See id.*

Thus, a necessary and integral component of Macklin's seasoning strategy is some indeterminate period of time between the two offerings when, hopefully, other material events will occur to positively affect the value of the stock, such as improving market conditions or the company becoming better known to the investment community. It would absolutely defeat the purpose of Macklin's seasoning strategy if a company pursuing Macklin's seasoning strategy had to lock-in the subsequent offering, especially in terms of (i) when to make the subsequent offering, (ii) how many shares to be offered in the subsequent offering, and (iii) the price of the shares to be offered (even if a market price), prior to the initial offering. This is because the stock may not only fail to appreciate in the time period between offerings, but it may significantly depreciate after the initial offering in Macklin, in which case the offering company

may be locked in to a second offering which is at a bargain basement market price, which can have adverse and even catastrophic effects on the company. Thus, it would defeat the very purpose of Macklin's seasoning strategy if the company had to lock-in the seasoned offering prior to the initial offering. Macklin's strategy is premised on a "wait-and-see" approach. If a company using Macklin's strategy would be committed to the seasoned offering no matter how the seasoning (i.e., the time period between offerings) turned out, it would defeat the flexibility built into the Macklin strategy.

Therefore, because the modifications to Macklin's seasoning strategy suggested by the Examiner would render the strategy unsatisfactory for its intended purpose, there can be ***no motivation*** to modify Macklin's strategy in the way suggested by the Examiner. As a result, Macklin cannot be used as part of a prima facie case of obviousness for claim 27 of the present application.

2. The Reasons Stated By The Examiner For The Motivation To Combine Are Factually Inaccurate And Amount To Mere Speculation

The key difference between the method of claim 27 and the cited prior art is that in the method of claim 27, the particulars of all of the multiple offering stages (e.g., the time interval between offering stages, the number of shares to be offered at each stage, and how the shares will be priced for each stage) are disclosed ***prior*** to the first offering stage. Thus, a company following the process of claim 27 will need to know these details prior to the first offering stage in order to disclose them.

Macklin, in contrast, discloses a seasoning strategy whereby a private company does a small IPO followed by, "sometime afterward, a larger follow-on offering." *See* Macklin at 103. Based on this, the Examiner argues that Macklin suggests the essential need for disclosing the particulars of the second offering prior to the first offering (or IPO). *See* Examiner's Answer at

5. This is mere hindsight on the part of the Examiner in view of applicant's disclosure. Nor does it follow from the teachings of Macklin itself.

In the Macklin seasoning strategy, the company has no firm plan for when the follow-on offering is to occur. Although it may intend to have a follow-on offering if the IPO goes well and if the stock continues to appreciate, the follow-on offering itself is purely speculative at the time of the IPO. The company cannot, therefore, know the precise date of the follow-up offering, or whether it is prudent to make an offering at that time given the then market price of the stock. Indeed, Macklin suggests that the timing of the follow-on offering is not predetermined (and thereafter incapable of being pre-disclosed) when Macklin states that the follow-on offering can occur when the stock "become[s] better known to the investment community." A company cannot know how long it will take the investment community to better know a stock in order to support a follow-on offering, so it cannot disclose the timing of the follow-on offering prior to the first offering. In that way, Macklin actually teaches away from the method of claim 27 rather than making it obvious. *See* MPEP § 2145 ("A prior art reference that 'teaches away' from the claimed invention is a significant factor to be considered in determining obviousness.").

Nor can the company following the Macklin seasoning strategy know the precise number of shares to be offered in the follow-on offering prior to the first offering. Without such details, it would similarly be impossible for the company to disclose the number of shares for each offering stage prior to the first offering, as required by claim 27.[1]

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[1] Applicant admits that the offering price of the shares offered in the follow-on offering in Macklin would likely correspond to the market price for the stock at the time of the follow-on

About the only basis that the Examiner can muster for the purported motivation to modify Macklin is that a company would be "motivated to be upfront about their intensions [*sic*] to use the 'seasoning strategy' in an effort to avoid possible share holder investor law suits" and that the company "would have been inherently capable of submitting the paper work for the initial subsequent offerings." Examiner's Answer at 6. This argument is a non sequitur. If a company does not know the precise details for its follow-on offering at the time of the initial offering, it cannot disclose those details to investors no matter how up front to investors the company desires to be.[2] In fact, for all practical purposes, the company could not disclose the details of the second offering before the initial offering if the second offering was some indeterminate time in the future after the initial offering because the company would not know what *material events* will occur in the undefined time window between the two offerings.[3]

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offering. Indeed, Applicant admitted this in his application. *See* Application at 3. It is significant that in the present invention (contrary to Macklin) the price need not bear any relation to the market price, even in the second, third, or any other stage of the offering.

[2] In a similar vein, at the end of page 5 of her Answer, the Examiner states that federal regulations require a company to prepare a second offering memorandum before the second offering. This is undoubtedly true, but this does not suggest that the company has to prepare an offering memorandum for the second offering ***prior*** to the initial offering. Such a memorandum would be impossible in fact.

[3] The Examiner's argument at pp. 18-19 of the Examiner's Answer that the company would know what material events will occur between the two offering stages because several companies have successfully pursued a seasoning strategy is ludicrous and is contradicted by the Examiner's own statement that the "stock market is inherently unpredictable." Examiner's Answer at 19. To state the obvious, just because some companies have successfully pursued the seasoning strategy hardly means that the companies had the ability to foresee what future material events may befall the company.

Furthermore, contrary to the Examiner's argument, Macklin does not disclose or suggest that the company should even disclose to investors its pre-intention to do a follow-on offering at the time of the initial offering.

Accordingly, the Examiner has failed to make out a prima facie case of obviousness. The "seasoning strategy" of Macklin, as described above, cannot in fact be modified to realize the invention of claim 27 without rendering unsatisfactory the purpose of Macklin's strategy. Further, the Examiner cites no credible and justifiable reason for why a person having ordinary skill in the art would be motivated to modify the teaching of Macklin's seasoning strategy to realize the invention of Claim 27. The Examiner instead relies on hindsight and pure speculation. *See Ex Parte Metcalfe*, 67 USPQ2d 1633, 1635 (BPAI 2003) ("Mere fact that the prior art may be modified in the manner suggested by the Examiner does not make the modification obvious unless the prior art suggested the desirability of the modification.") (*quoting In re Fitch*, 972 F.2d 1260, 1266 23 USPQ2d 1780, 1784 (Fed. Cir. 1992)).

B. <u>The Examiner Improperly Discounts Secondary Indicia Of Nonobviousness</u>

Applicant's opening appeal brief outlined several advantages of the process of the present invention in comparison with the seasoned offering strategy of Macklin. These advantages include:

- The process of the present invention reduces the cost, risk and delays inherent in seasoned offerings (*see* Amended Appeal Brief at 18-19);
- The process of the present invention presents a solution to the underpricing problem (*see id.* at 19);
- The process of the present invention has the capability of providing flexible pricing within stages of the IPO (*see id.* at 20);
- The process of the present invention provides the opportunity for hedging, arbitrage, and other pricing strategy opportunities that are not available in conventional seasoning strategies (*see id.* at 20);

- The process of the present invention provides risk containment for both the issuer and investors because the details of all of the offering stages are predisclosed prior to the offering (*see id.* at 20).

In response, the Examiner gave no credence or consideration to these differences because they "are not recited in the rejected claims(s)." *See* Examiner's Answer at 16-18. This is improper under the analyses that form the obviousness determination under 35 U.S.C. § 103.

The Examiner already concedes that there are differences between the process of claim 27 and Macklin's seasoning strategy. *See,* e.g., Examiner's Answer at 5 ("Macklin et al. do not directly show . . ."). Thus, the determinative question is whether claim 27 is obvious in view of Macklin. In making that determination, secondary indicia of nonobviousness are relevant. *See* MPEP § 2141 (citing *Graham v. John Deere*, 383 U.S. 1, 148 USPQ 459 (1966)). Those secondary indicia include commercial success, long felt but unsolved needs, failure of others, etc. *See id.* The secondary indicia, however, do not need to be recited in the claims in order to be relevant to the obviousness determination. *See e.g., United States v. Adams*, 383 U.S. 39, 148 USPQ 479 (1966) (claim determined to be nonobvious based, in part, on secondary indicia not recited in claims).

Here, among the other advantages cited above, the present invention presents a solution to the underpricing problem. Utilizing the process of claim 27, a company going public can reduce the amount of money it leaves on the table (that money represents the 'underpricing problem"). And the process of claim 27 does so without exposing the company to the costs, delays, and risks of a seasoning offering at some indeterminate point in the future. This represents a solution to a long felt problem in the finance industry. As noted in Applicant's opening brief, underpricing is a problem that continues to plague companies going public. *See* Amended Appeal Brief at 21-22. The process of claim 27 provides a solution, and the failure of others to provide a solution to such an expensive and persistent problem indicates the

nonobviousness of claim 27. It is, therefore, improper for the Office and the Examiner to ignore these considerations under the shibboleth that they are not recited in the claims.

C. The Office Should Be Estopped From Rejecting The Claims On Appeal Based On Macklin

In its opening brief, Applicant recounted how the Office had withdrawn its prior rejections based on Macklin when the Applicant appealed those rejections. Several Office Actions and several examiners later, the Applicant is back to appealing rejections based on Macklin, despite the fact that the Office has never attempted to explain why the withdrawal of the rejections based on Macklin in the prior appeal amounted to "clear error" as required by MPEP § 706.04.

In response to Applicant's argument, the Examiner merely stated that the "prior use of Macklin was applied against claims that are not longer presented." *See* Examiner's Answer at 13. While technically true, this response represents an unfair and prejudicial exaltation of form over substance.

The claim (claim 1) that was rejected in the prior appeal based on Macklin was substantially similar to claim 27 in the present appeal. It stated:

> 1. A method for offering shares of stock of a privately-held company to the public as part of an initial public offering, comprising:
>
> offering a first portion of the shares of the stock of the initial public offering to public investors at a first price; and
>
> offering a second portion of the shares of the initial public offering to public investors at a second price after a first trading interval of a first predetermined and predisclosed time period after the offering of the first portion, wherein the first portion of the shares and the second portion of the shares are owned by the privately-held company and wherein a pricing procedure for the second portion of the shares is predisclosed prior to the first offering.

Claim 27 of the present appeal is narrower that claim 1 in the prior appeal because claim 27 requires communications over a computer network. Claim 27 states:

> 27. A method for offering shares of stock of a privately-held company in an initial public offering, comprising:
>
> disclosing, prior to the offering, the number of shares to be offered in the offering, that the offering will occur in two or more successive offering stages, the number of shares to be offered in each offering stage, the amount of time between successive offering stages, and pricing information for the shares to be offered in each offering stage;
>
> offering a first portion of the shares of the stock of the offering in a first offering stage to investors; and
>
> offering the remainder of the shares of the offering to investors in separate portions over the subsequent one or more offering stages,
>
> wherein at least some communications regarding the offering of the shares over the offering stages are made via a computer network.

As can be seen by comparing these claims, they are substantively the same. Whereas claim 27 has an affirmative "disclosing" step for disclosing the particulars of the offering, claim 1 stated that the particulars are "predisclosed prior to the first offering." It is unfair and prejudicial for the Applicant to have to continually overcome the same rejection with different examiners. The Office should follow it own operating guidelines by giving "full faith and credit ... to the search and action of a previous examiner unless there is a clear error in the previous action or knowledge of other prior art." MPEP § 706.04. Here, the Office has not explained why the prior examiner committed "clear error" by withdrawing the rejection in the prior appeal and the Office is not relying on other prior art. Accordingly, the obviousness rejections based on Macklin should be withdrawn.

D. The Hambrecht Patent Gives An Indication Of What Is Nonobvious In The IPO Field, And By This Measure Applicant's Invention Is Nonobvious

The Examiner considered Applicant's argument with respect to the Hambrecht patent to be irrelevant. *See* Examiner's Answer at 20. But the Hambrecht patent is not irrelevant because it gives an indication of what is obvious and what is nonobvious in the IPO field.

The Hambrecht patent (U.S. Pat. 6,629,082), filed in 1999, recites a method of offering equity securities which is commonly known as the "Dutch Auction" method. The U.S. Treasury, however, has used the Dutch Auction method to sell government securities since 1993, six years before the Hambrecht patent application filing. Therefore, Hambrecht's invention essentially is to apply the well-known, prior art Dutch Auction method to the sale of equity securities, rather than debt securities, and this was determined to be nonobvious by the Office. *See* claim 1 of the Hambrecht patent.

The Hambrecht patent thus provides some indication of what constitutes nonobviousness in the IPO field. By this measure, the present invention is certainly nonobvious. Hambrecht was able to patent the use of a preexisting method (the Dutch Auction) for a different type of security (equity offerings). The process of claim 27 certainly exceeds this threshold.

III. CONCLUSION

For the foregoing reasons, Applicant submits that the rejections of claims 27-39 in the Office Action are improper and should be reversed.

Respectfully submitted,

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